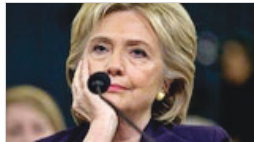


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## Digging Deeper With Startups:

Exclusive Q&A With

# CHRIS LARSEN

Co-founder and CEO



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# Digging Deeper With Ripple: The Internet Of Money

April 14, 2014 By: Andrew Barnes



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*Andrew Barnes' series, "Digging Deeper" is based in Silicon Valley and focuses on startups and key innovators and how they are disrupting digital payments and commerce.*

Ripple Labs is the hot start-up funded by the who's who of venture including Google Ventures, Andreessen Horowitz and IDG Capital Partners that is turning industry heads. The Ripple protocol is a distributed, real-time payment protocol for anything of value.

Andrew sat down with Chris Larsen, CEO and Co-founder, to discuss the business models they are disrupting, the soon to be upside down world of clearing and settlements, and the distance they put between themselves and cryptocurrency discussions.

**Barnes: Chris, we've heard a lot about Ripple Labs lately. Can you tell me about the business model that you're disrupting, if any, out in the market?**

Larsen: Sure, I'd be happy to. What we're doing with the Ripple protocol, and what Ripple Labs is helping to build in the Ripple protocol, is this idea of an Internet-for-value exchange. We see this as a SWIFT 2.0.

We've had an Internet-for-information exchange for the last 20 years. And until now it was not possible to have an Internet-for-value exchange. We think that the most important thing to come out of the Bitcoin phenomenon is the idea that the world knows how to confirm financial transactions without a central operator. That means you can construct a distributed, real-time payments protocol for the first time. You can now build a peer-to-peer, distributed payment protocol, and that's what Ripple is.

In the Ripple protocol, it's importantly currency-agnostic. You can use any currency in the world, in the protocol. As well as things like airline miles, virtual currency, gold, and silver. Other things that people use as currency. It has a distributed currency exchange built in. If you look at the payment stack in the world's payment systems, you have six components. By the way, tell me if I'm going too deep here on anything...

**Very interested to hear you views on the payment stack in the world's payment systems, and where Ripple falls.**

You have six components: cash in, cash out, clearing and settlement, FX, communication or messaging, and some form of dispute resolution. What the Ripple protocol does is uncouple those components and focuses specifically on clearing and settlement.

The idea is that you can now clear any currency globally in about 5 seconds instead of 2-plus days or more in our pre-internet payment systems. That's a real advantage to any company developer, or person involved in payments. That shortens the cycle and lowers the payment risk because everything is point to point. There is no central operator so a payment can't fail in the middle. The way it works now, multiple ledgers are involved. In the Ripple protocol there's only one ledger and so a payment is either completed or it's not, and in 5 seconds. In some ways that can reduce risk; it certainly reduces capital requirements for businesses.

Another important thing it does is to provide in-stream foreign exchange. For instance, if you're making a payment between the US and Europe you have the foreign exchange component built right into the protocol. Ripple acts as a big path-finding algorithm to find the best route for that dollar to become a euro. It's going to look at all the orders in the global order book. With this protocol anybody can put a bid-ask on anything of value.

It is important to note that we're at the bottom of the stack and other systems will be built on top. We're an enterprise and developer company, we're not a consumer company. We're building the rails for these new, distributed peer-to-peer payments ideas.

### **When I last saw you, you went to great lengths to distance Ripple from cryptocurrencies. Why is that?**

Yes, this is an important point for us. Ripple is very different from other cryptocurrencies but it's an inclusive system so people can hold and use Bitcoin, Litecoin, Dogecoin – any currency – in Ripple. The key difference between Ripple and other cryptocurrencies is its design objective was to build a distributed payment system vs. a new currency.

To the point of building a globally inclusive payment system, we don't agree with the philosophy of disintermediation. But a lot of the early discussion has been about cutting out the incumbents, and not including banks or financial institutions. Kind of like building this whole parallel financial system, and we just don't believe it's going to turn out that way.

The big thing we do is real-time settlement. Just like we have real-time settlement in the information web, the world is entering a time where we will have real-time settlement in value. Globally, free, instantly, anywhere there's Internet access. That's actually a real benefit to existing incumbents.

### **With that in mind, who and where is your focus from an adoption standpoint?**

Our focus is on getting banks to integrate on a real-time inter-institution settlement system. And very promisingly, as an intra-institution settlement system. For instance, there's a big opportunity for a company that has both a bank and a brokerage. A lot of times they're wiring their ACH within their own company. These kinds of systems can improve on that, save that institution a lot of money, and provide a better

experience for their customers.

### **And what is the role of your proprietary currency, XRP?**

There is a currency built into Ripple, called XRP but it's really an enabler for the payment system. We think most people are going to be using dollars, euros, and existing currencies. They're not going to be adopting a new currency that might be volatile or deflationary. In some cases, some people will want that, but we don't think it will be widely used. Fundamentally we think the payment protocol is an opportunity for just about every part of the payment ecosystem. It's a step forward for everybody.

### **When Ripple is removing costs from the system, someone's lunch is being eaten as fees compress. Who's being impacted?**

There's a great example in the UK in 2006 when they introduced a real time payment system. And in Mexico. What you saw were dramatic increases in the amount of value being exchanged. That's what we saw on the information web too. We didn't see just a replacement of the free Internet communications companies. We saw an explosion in the amount of communications going on in the world.

We think that's exactly what's going to happen with the internet of value. Yes, maybe the per-transaction spreads will decline, just like they did in information, but the amount of value being exchanged should explode. There's a lot of places in the world now where you have the information web and you don't have any ability to pay for that information, you don't have a payments web. That spells new opportunity for all new incumbents. It might be a change, but it's a positive change.

### **As a payments and commerce professional, why should I pay attention to Ripple Labs?**

I think this is the first time you can architect value to be exchanged like information. That simply wasn't possible before. There's a higher bar for value exchange than information exchange.

Until now the world needed a central operator to make sure you didn't send the same value twice. The world now knows how to do that without a central operator. So why is that important? You don't have to worry about a new technology where you think, "Okay, that looks useful," but what if that central operator cuts me off 10 years from now, or triples the fee in 3 years? What's nice about these technologies is that you don't have to worry about that.

It's just like HTTP, you can build your online bank on HTTP. Think about it, Google can't cut you off, they don't control HTTP. That was the huge boon for decentralized information exchange. The same thing is now about to happen. I just think that it's been a 20 year delay for the value web.

### **How much of the success of the decentralized payment network is dependent on Ripple Labs being around?**

What's nice about these protocols is they can continue to exist, like HTTP, so that even if Ripple Labs didn't exist the Ripple protocol continues. It's all open-source, it's available for anybody. Anybody can take it and fork it, they can modify it and do whatever they want with it.

We think that supporting the existing Ripple protocol is important. It's not just the code but it's the utility of all the other players that are now integrated. That continues along and that's a key point of a decentralized peer-to-peer system.

Again there is no operator, there's no counterparty, just Ripple Labs. We're a main contributor at this point but that can quickly be changed. For instance if Google wanted to pick it up they could be the main contributor as long as all the peer-to-peer nodes agreed on that improvement. Google couldn't control it, but they could contribute. I think we're additive now, but if we weren't here anybody else could pick it up and continue to improve on it.

### **Can you tell me a little bit about your business model and how you make money?**

With information protocols like HTTP, SMTP, you can't monetize them, they're just code. Companies make money by building services on top of them. Red Hat monetizes Linux by charging services to consult, but there's no fundamental monetization in Linux itself.



What's really interesting about the Ripple protocol is that it's a monetizable protocol. It has a built-in native currency which is needed to grease the wheels. A common denominator and a currency without counterparty is needed. Even if consumers aren't adopting it, it's really helpful for market makers.

Merchants and consumers continue to use dollars, euro, airline miles, but market makers will actually find XRP (ripples) very constructive in making markets. Therefore as the protocol grows, since there's a limited amount of XRP, the value of XRP should go up, because it's in demand by market makers.

That is our business model. We're keeping 25% of those XRP, and using the rest of it to incent market makers, gateways, consumers to come onto the protocol. We use the 25% to cover the bills here. We've been successful at that, we're cash flow positive, and it has worked out well.

### **Does that distort the market when Ripple is also a major owner of the underlying currency?**

It could, if the only thing of value allowed was XRP, and if we required everybody to switch to a new currency. There's some people in these technologies that believe that that's going to happen. Probably some Bitcoin people think that will happen with Bitcoin. We don't think that's going to happen. We actually think these technologies result in the opposite. They result in an explosion of things of value.

If you think about it, if you really have an Internet-for-value exchange, every merchant that has a loyalty program suddenly has a global currency. As long as there's some market maker out there, the market maker who could be anybody says, "cool. I'll trade those Starbucks points for Amazon points." Great, suddenly those Starbucks points are global currency. Maybe somebody else wants to trade them for Indian Rupee.

Nobody has to use XRP except market makers. Market makers tend to be pretty sophisticated traders. We think that's the place where it has the most utility. As you noted the values for a currency are either speculative, store of value, or medium of exchange. I think that being a medium of exchange is the most important demand function for a currency. The U.S. dollar demonstrates that, right?

### **How do you work with developers and bring folks into your ecosystem?**



Just think about all of the stuff that has to be built now. Whether that be for consumers, companies, or trading applications for Wall Street. Or things that would allow an individual to issue their own credit in some form. I mean there's all kinds of things you can do.

Our job is to build the tools to allow developers to do that. Developers and entrepreneurs can bring together teams, and we will support them. We actually have an incubator (<https://www.crosscoinventures.com>) up on the 4th floor. We've been supporting small startups with office space, resources. We don't even take a cut of their ownership. They can just dive right in and that's why we exist.

### **Is what you're doing relevant to underserved and underbanked markets around the world?**

Suddenly somebody in one of the poorest countries of the world now can open an information web storefront, and more importantly, now they can start directly taking value for the information or services that they offer.

As well as micro-payments. There's a big opportunity in micro-payment rails that anybody can build on.

Also, you will see local developers on a platform for value exchange that simply wasn't previously available to them. A small developer in Ghana had to go find a correspondent bank to be able to do business with somebody in India. That's very different from having a HTTP-like network for money that is immediately available. They can instantly apply their knowledge to build a tool or a business that just simply has not been possible up to now.

Anywhere there's an Internet connection there is now an Internet-for-value exchange. That's a big idea that will be playing out over a long period of time, but isn't going back; the world knows how to do this now. Pre-'09 and really, pre-2011, when anybody even noticed what was going on, there was no ability to do it. Humans could not architect it. Now that they can, the genie's out of the bottle. All these entrepreneurs all over the world, incredibly smart and competitive. Which is great, it's a good thing. I think a bunch of changes are coming over the next 10 years.

**Awesome talk Chris. Thank you.**

Absolutely Andrew. Great to see you.

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### About Ripple Labs

Ripple Labs developed the Ripple protocol, which makes transacting as easy as emailing. The San Francisco-based startup is funded by Google Ventures, Andreessen Horowitz, IDG Capital Partners, FF Angel, Lightspeed Venture Partners, The Bitcoin Opportunity Fund and Vast Ventures. The software company's team of 45 is comprised of deeply experienced cryptographers, security experts, distributed network developers, Silicon Valley and Wall Street veterans. Ripple Labs was named one of the 50 Smartest Companies (<https://ctt.marketwire.com/?release=1094329&id=3967807&type=1&url=http%3a%2f%2fwww2.technologyreview.com%2f2014%2f>) for 2014 by MIT Technology Review.

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### Chris Larsen, co-founder and CEO, Ripple Labs

Chris Larsen is CEO and Co-founder of Ripple Labs, the organization that built the Ripple protocol. Ripple (<https://www.ripple.com/>) is an open source decentralized payment network and virtual currency. Mr. Larsen also cofounded and served as CEO of Prosper, a peer-to-peer lending marketplace, for eight years. Prior to Prosper, Mr. Larsen cofounded and served as CEO of E-Loan, a publicly traded online lender, for eight years. Mr. Larsen holds an M.B.A. degree from Stanford University and a B.S. degree from San Francisco State University, where he was named the 2004 Alumnus of the Year.

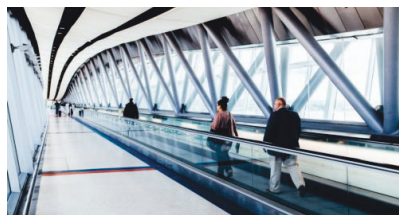
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Barnes is a self-confessed payments and commerce “geek” working in Silicon Valley and San Francisco. Leveraging his entrepreneurial background he utilizes relationships in tech, startups, retail, and financial institutions to identify emerging opportunities and analyze challenging business models in digital payments and mobile commerce. He has held executive business development positions in Asia with Sprint, Global One, and 2Roam Mobile. He founded the National NNN Investment Group and is an Advisor to the Electronic Transactions Association (ETA). Barnes has an MBA from Waseda in Tokyo 早稲田大学大学院 and a BA from Penn State. He can be reached at @AndrewinSV (<https://twitter.com/AndrewinSV>) and LinkedIn (<https://www.linkedin.com/in/andrewphelpsarnes>).

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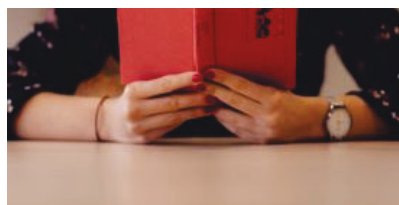
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